

Municipal Taxation in Relation to Speculative Land Values

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Whatever may be said of the ultimate basis of national or state and provincial taxation, municipal taxation, at least, is essentially based upon the fact that where increasing numbers of people find it necessary to live together in a more or less limited area, it is essential for elementary safety and comfort that they should undertake to maintain certain services in common. These needs expand with the increasing size of the civic centre and the developing wants of the citizens. After providing for the primary and more indispensable needs, there naturally arises the desire to provide for secondary and higher needs. Organized society, as Aristotle put it, comes into existence to make life possible and continues and develops in order to make life good.

In any considerable centre of population it is plain that there must be co-operation in providing for the supply of those primary needs previously so easily satisfied, if felt at all, in the open freedom of the country. Chief of these are pure water, drainage and sanitation, suitable highways for constant traffic, equipment for the prevention of fires and for the general police protection of life and property. While these primary needs are in process of being met, various secondary needs emerge, such as the need for schools, libraries, parks, the regulation of buildings, and other measures to improve, on the one hand, the atmosphere of civic life and, on the other, its intellectual and artistic quality. In a modern community, making any claim to be ranked as civilized, its individual members cannot be left to make voluntary provision for the supply of these very essential needs, such provision must be placed at the service of every member of the community, whether he may or may not be able to make a proportionate contribution towards the necessary outlay. Thus the taxes which are levied to sustain the various civic departments cannot be regarded as payment for services rendered, on any basis of economic exchange, but as a necessary contribution towards a public charge which must be met as a civic duty. At the same time the levying of a civic tax should not be open to the charge of injustice or unfairness from the point of view of individuals having similar obligations and similar capacities to meet them.

On the other hand, well ascertained public opinion on the grounds of economic service may support the policy of providing citizens with a street car, or telephone service, or the supply of light, heat, or power, in such forms as electricity or gas. These services, however, cannot be supplied on the same basis as police, or fire protection, or general sanitation. However convenient or even essential when once established, such services must be supported by those who directly benefit by them, on the same principles of exchange as would apply to their provision by private individuals or corporations. The very different grounds on which contributions are made by the citizens to the support of a fire department and an electric light department indicate the essential distinction between municipal taxation and ordinary exchange payments for services rendered. An individual citizen may be given the option of walking to his place of business or riding in a civic tram, but cannot be given the option of leaving his house unprotected against fire while his neighbor is so protected. If, then, some citizens are unable to meet their full share of the cost of fire protection, other citizens must contribute more than their proportion of this cost. The question therefore arises, on what basis should compulsory taxes be levied, as contrasted with the voluntary exchange payments for civic services?

In all normal forms of taxation, whether based upon ability to pay or not, few practical distinctions can be made as between incomes acquired as the result of exceptional personal quality or close attention to business, and incomes derived from forms of investment which call for little exertion on the part of the owner of the capital.

An attempt to follow up this distinction to some extent and to make the relative value contributions of the individual and of the community determining factors in the levying of taxes, is manifested in the arguments for the so-called single tax on land values. It is not possible within our space to pass in review the curious medley of half-truths and more largely proportioned misconceptions in the sphere of economics, directed to the philanthropic object of a universal redemption of mankind, morally, socially and politically, but argued with a most misanthropic fervor against all who question the validity and claims of the system set forth. The fundamental principle maintained

is that the local community as a whole contributes to land its entire economic value, while other economic values are derived from human labor and enterprise. This, however, is contrary to obvious facts, it being evident that while no values can exist without reference to the needs of a community, to determine what proportion of human effort or enterprise must co-operate with these needs to furnish articles or services of different values is a very complex and variable problem, and it is as variable in the case of land as in the case of many other articles. Moreover, the community which contributes to the value of land, especially its speculative or exceptional value, is a community some of whose most influential elements reside far from the municipality or even the state or province, which would exclusively benefit by a tax levied upon land values alone.

But while the single land tax conspicuously fails to reach the pocket of the successful land speculator, there is no one whose gains may be more legitimately laid under heavy tribute for civic needs. As a matter of fact the real prices of land before and after a land boom plainly indicate that much the larger proportion of what the shrewd land speculator has dealt in, under the guise of land sales, are simply carefully dressed visions of sudden wealth to be obtained by the transfer of city lots. The lots themselves may have little permanent interest for either party to the speculation. Those, however, who have a permanent use for them can obtain them only at the speculative rates which they bear as counters in the game of land speculation.

One of the most disheartening features in the long period of stagnation and slow recovery, which follows the collapse of a land boom in an over-grown and over-built city, is the legacy of debt and heavy interest charges which is entailed upon the unfortunate citizens. Indeed, during the boom period, a great many expenses which should have been met from the annual taxes are paid out of the proceeds of loans. After the boom, however, not only have these charges to be met out of annual taxes, but also the full interest on the millions borrowed, as well as many repairs and minor replacements rendered necessary by imperfect work under inadequate supervision. Thus, after the boom, the annual taxation may be considerably greater than during the period of flush times and special expenditure. The interest charges alone in many of the best boomed cities in Canada amount to from one-fourth to one-third of the annual taxes. If provision is being made for a sinking fund, the proportion is of course considerably increased.

Now it is commonly found that these great burdens have to be borne in the largest measure, especially if any form of single tax is in operation, not by the successful speculators, who have disposed of the greater part of their land holdings, but by their unfortunate victims, many of whom are forced to purchase their lands for residence or other permanent uses and to pay for them the boom prices, which could not be subsequently recovered.

Obviously, what is required is some system of civic taxation which will be as rapid and effective in operation and as generous in its levies upon exceptional profits as are the operations and the gains of the successful land speculator. Clearly also this will not be the slow biennial system of taxation, which assesses the property one year and collects the taxes the following year. During this time, in cases of the really typical civic boom, such as we have had in numerous towns and cities in both the United States and Canada, the property may have changed hands scores of times; often, in single transfers, at an increase in value anywhere from 25 to 100 per cent, or more. Nor can effective taxation of the speculator have reference to any rental value of the properties dealt in, rental value being practically non-existent during a civic boom. It must be a system which provides for an automatic tax levy at every legal transfer of the property, and which collects the taxes from the purchaser as part of the price which he has agreed to pay for the land. Moreover, the levy must increase in percentage as the scale of profit increases, thus strictly following the central principle of taxing according to ability to pay.

A study of the various stages in the growth of a city boom reveals the interesting fact that once the future city is launched on an active period of expansion (a movement commonly arranged by a group of shrewd and courageous speculators who manage to attract considerable capital

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